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THE FUNCTION OF THE STATE IN RELATION TO  
STATISTICS OF MUNICIPAL FINANCES.\*BY CHARLES F. GETTEMY, *Director of the Massachusetts Bureau of  
Statistics.*

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The relation of the state, in our American system of government, to municipal functions, and the origin and development of the various forms of supervision and quasi-jurisdiction which have from time to time been assumed by the states over the administration of municipal finances, have never been made the subject of adequate historical treatment, partly, no doubt, because of the inaccessibility, but chiefly because of the unreliability, of the sources of original information on the subject. It is not my purpose in this brief paper to attempt even a summary of the material which research in this inviting field may uncover, but only to indicate certain significant phases and tendencies of the modern movement for state supervision of municipal finances which had its origin about eighteen years ago and has now achieved an appreciable momentum in about a dozen states of the Union, and to do so with special reference to emphasizing its statistical importance and possibilities.

Six centuries ago, Dante, who, besides being a great poet, accepted an appointment without pay to superintend the straightening, widening, and paving of the street San Procolo, likened his beloved Florence to the sick man who finds no rest upon his bed and turns from side to side to ease his pain. So with our American cities,—every now and then, when his distress seems no longer endurable, the patient seeks relief in some temporary remedy, such as the driving of men thought to be rogues from public office, or the enactment of a new charter. It is a familiar story,—the sporadic character of reform movements in our municipal politics, their absolute failure to outlive the enthusiasm of good citizens temporarily aroused from lethargy by a culmination of

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corruption and inefficiency thought to be no longer endurable, and then the lapse once more into indifference, cynical acquiescence, and impotent despair. "Reformers," as Mr. Metz, formerly comptroller of New York City, has recently put it, "seem on a perpetual quest for some short cut from misgovernment to efficient government."

So it has come about that the students of city problems who have gone beneath the surface of things and down to the foundation of municipal misrule are beginning to appreciate, in the highly important work of making democracy in our cities a success, that while we need character and honesty and willingness in our public officials, we need something perhaps even more than these, namely, precise classified knowledge of our public affairs. Give us the most capable administrator whom it is possible to find and one whose integrity as well as ability is unquestioned, and what can he accomplish—how much have we a right to expect him to accomplish—when he is deprived of the most important tool he should have to work with; and when we have, moreover, deprived ourselves of the instrument necessary for measuring and judging conditions and deciding what ought to be done about them?

It seems to me that the corner-stone of efficient municipal administration is exact statistical information, compiled so as to reflect: (1) The thoroughness with which taxes are assessed; (2) the faithfulness and industry with which revenue is collected; (3) the extent to which adequate service is rendered for expenditures. Such information obviously can be obtained only with great difficulty, if at all, in the absence of system and accuracy in accounting procedure and without an exact use of words and phrases, a uniform terminology throughout all departments and, as far as practicable, in all municipalities. While, therefore, I would be the last person to minimize the importance,—indeed, the absolute necessity,—of a thorough overhauling and reorganization of accounting methods as the *sine qua non* of any enduring reform in municipal administration, I desire on this occasion to call attention to the fact that while an accounting system which will adequately record the financial transactions of each particular

community is of fundamental importance, there is some danger that to carry out such a system may be regarded as a bookkeeper's task solely, involving merely proper recognition of the principles and technique of accounting; and that the latent possibilities of an intelligently kept system of accounts as a means of directly promoting efficient municipal government in all its countless ramifications (health conservation, protection of persons and property, education, charity, recreation, etc.) may not be fully appreciated by our local accounting officers.

The development of these possibilities involves something besides the ability merely to keep books that will balance correctly, something, indeed, besides the ability to keep a complete and detailed record of all of a city's financial transactions. The information thus entered with pen and ink on cash books, journals, and ledgers must, in order to be of the highest value to progressive administrators and students of municipal affairs, be reflected in the printed and published reports in such form that its significance may have a ready application and be clearly comprehended by the citizens and taxpayers. There is poor enough municipal accounting in great abundance, alas, but there are also many excellent accounts kept by men who appear to be quite unable to translate and summarize the facts they have recorded, I might say imbedded, in original books of entry and to transfer them to the printed page with any approach to intelligible form; and we have as a result a great output of public documents which ought to be mines of valuable information, but which are wastes of dead matter, useless alike to administrative officers and citizens, not so much because the statements they contain are inaccurate,—though inaccuracies are by no means absent,—as because they are lacking in systematic arrangement, the detail is poorly classified, and comprehensive summaries are not attempted, faults which are almost certain to mislead the reader and render intelligent interpretation next to impossible. Sixteen years ago Mr. Frederick R. Clow graphically described conditions then existing, upon which, happily, some improvement has since

been made in numerous important individual cases, but which still prevail generally the country over:

"There are tons of auditors' and comptrollers' reports, treasurers' statements, debt statements, estimates, appropriation ordinances, proceedings of councils, mayors' messages, department reports, law and judicial decisions, besides endless newspaper and periodical literature. But its crudity is appalling. City documents seem to be compiled to meet the requirement of the law or to make a job for the city printer,—anything except to give intelligible and desirable information. . . . In so far as the municipalities of a state are left to themselves, they tend to have individual peculiarities. Thus, in studying local finance, we have a myriad of financial systems to take into account."

The ideal municipal accountant should, therefore, not only possess accounting ability in the usual acceptance of the term, but should cultivate, if he is not naturally endowed with it, the imagination of the statistician. It may as well be admitted at once, however, that the combination of these characteristics in a single individual is too much for us to hope to find in all of our municipalities for a long time to come. Partly for this very reason, it seems to me that if the authority of the state is to be invoked to assist our towns and cities to govern themselves, its highest and ultimate function in this field should be primarily educational and informatory through the dissemination of statistical data, carefully gathered and compiled upon as uniform a basis as possible for comparative and analytical purposes, and that its exercise of supervisory powers over municipal finances should be, in the last analysis, incidental only.

It must, I think, be conceded that certain legislative enactments,—special laws, as well as those affecting all municipalities of the state,—such as provisions to regulate the incurrence of indebtedness, the essence of which is to protect the taxpayer of the future against burdens that might otherwise be unjustly placed upon him, must be subject to enforcement by the state's own officers. Such assistance, also, as the state can render in pointing the way to improved accounting methods and, in the interest of all the taxpayers, in encour-

aging local officials to adhere to sound principles in the handling of their financial problems, it should be prepared to give; and I am of the opinion, based upon experience, that the exercise of these functions on the part of the state will not only come to be recognized as legitimate, but will be most cordially welcomed by the municipalities themselves. But beyond this fairly distinct line the state should be exceedingly careful about trespassing and should leave to its several municipalities, in proper deference to the spirit of local self-government and responsibility, as wide a field as possible for the exercise of individual initiative and development.

I think I can see indications that the time is not far distant when scientific accounting systems, measurably well kept, will have become the rule in our municipalities and will be regarded as a commonplace adjunct of their every-day life, quite as essential to the public welfare as certain more visible assets, such as good roads, good schools, adequate water supplies, parks and playgrounds, hospitals, etc. We must, accordingly, look beyond the mere installation of scientific accounting systems and the handling of local financial problems in accordance with the letter of the law to a time when accounts and records of financial transactions may be put to a wider public use and when they will be regarded not only as an achievement in themselves, but, incidentally, as a means to a much larger end. In a word, while accounts and records should reflect current facts and transactions with routine accuracy and completeness as a matter of necessary contemporary record, they should do so in such a manner as to make possible their easy translation into public documents from which may be determined the degree of administrative efficiency with which our municipalities are governed. It is perhaps, as I have said, too much to hope that even our best municipal accountants can all be so gifted with the imaginative faculty as to be able to make of their printed reports much more than transcripts of the figures on their original books of entry; but if the state cannot keep the books of our municipalities,—something which it ought not to undertake even if it were not a physical impossibility,—it can, at least, supply the statistical faculty and by means of a depart-

ment or bureau equipped with a staff trained in the observation and interpretation of facts, take data which have been properly recorded and assemble and correlate them in such form as to render them of immeasurable importance in promoting efficient internal administration of municipal affairs as well as of direct service to the economist and student of political science in its larger aspects.

It is at this juncture that a new and almost unexplored field for statistical endeavor is revealed, which affords the statistician a limitless opportunity for usefulness in the adjustment, if not the solution of, some of the most troublesome economic problems of our time, since outside the immediate relationship of capital and labor in the industrial field, there is scarcely one of these questions which does not come into contact with municipal government through its financial administration at some vital point, so that, as Professor Bullock has well said, "while this movement is to be commended as of great practical value for the improvement of the financial standing of our cities, it has far-reaching importance when we look upon it as a movement for gathering data essential to enable the student of modern social conditions to determine whither our civilization is tending and whether it is likely to prove a failure or success." What are some of these questions upon which the economist in political science would like to be able to throw more light than it has hitherto been possible for him to do because of a lack of adequate primary data such as can only be supplied him by the statistician and the gathering and compilation of which accordingly constitutes the latter's great opportunity? What, in short, do we need to know with respect to certain aspects of public finance and its connection with the economic well-being of the community, in regard to which we are either very ignorant, or, at best, have only vague conceptions based upon isolated, uncorrelated, and, too frequently, unverifiable data?

There is a vast literature of taxation, whole libraries have been written in support of various theories of raising revenue; and there is a great body of statutory enactments prescribing the manner in which funds shall be raised for the support

of the public service,—national, state, and local,—the administration of which has resulted almost automatically in the accumulation of a great quantity of data upon which the student of taxation may draw for statistical information of a tolerably enlightening character. And this is but natural, since the laws of taxation from which our local communities, as well as the states, derive their general revenues, are state laws, and the state being the taxing power, it must have in its possession at all times, accessible through a central administrative office, records which reflect the degree of success attained in the operation of its statutory requirements. But until the movement for the standardizing of local accounting methods under the direction of some central official began to make headway, there was nowhere to be obtained in any of our states information which threw any adequate light on municipal expenditures, a condition primarily and obviously due to the fact that while there were laws in abundance governing the raising of revenue, there was practically no legislation regulating local expenditures. With the latter, the state appeared, and, indeed, at the present time appears to have little or no concern, partly, no doubt, out of respect for the doctrine that, given the means of raising revenue for their immediate desires, the people should be permitted to spend it to suit themselves, but primarily, I imagine, because the state does not approach the question of expenditure from the same point of view as does the individual. The state must, in being obliged to supply service to all the people, take into account numerous factors with which he who buys only for his own needs or for the purpose of personal profit does not have to reckon. The theory of personal expenditure to which the individual must in the long run adhere is that he cannot spend more than his income and he must accordingly adjust his scale of living to his financial receipts; the state, on the other hand, first takes an account of what its lawmakers conceive to be its needs, and then proceeds to raise the amount required to meet those needs.

Whether it is any part of the true function of the states in our American system of government to undertake super-



vision over municipal expenditures by means of restrictive legislation,—except through the limitation of the borrowing power, which seems to be both legitimate and necessary,—I have grave doubt; at any rate, the discussion of this question is not within the province of this paper. I merely wish on this occasion to emphasize the conviction that, however well-founded the opposition to any scheme of state supervision over local expenditures may be, there is an urgent need in the conditions of modern life for the assumption by the state of the duty of collecting and disseminating positive and accurate information on the subject, and that if it can thereby furnish our local communities with needful publicity about their own affairs which can be of assistance in increasing their own efficiency in governing themselves it can render no higher service.

The tendency of the people to concentrate in cities is one of the most impressive economic phenomena of the last 100 years and is emphasized with each recurring census. The problem of efficient municipal government is accordingly constantly becoming more and more acute, and in America, at least, it has forged to the front during the past decade with a degree of insistence quite out of proportion to the accumulation of data essential to its proper study. It is of the utmost importance that we know just to what extent increasing population and increasing concentration of population are keeping pace with increasing expenditures for municipal purposes, and whether the latter are increasing disproportionately compared with valuations which are the basis of taxation. No elaborate research is required to assure us that there is continually going on all about us a broadening of the scope of municipal functions, a fact which, in the absence of definite data, is often plausibly offered as an adequate explanation of rising expenditures; now we want to know to just what extent the increasing cost of municipal government is properly attributable to this cause and whether the assigned cause is in any respect a cloak for wasteful or improper expenditures. We want to know, furthermore, in what particular branches of the public service expenditures show a tendency to rise disproportionately with the population,

where they incline to keep pace with the population, and whether the functional cost decreases relatively with increasing population or with increasing aggregate service.

Incidentally, however, important as it may be to ascertain what relationship exists between population (the mere number of people in a given political division) and public expenditures, the pitfalls of per capita statistics,—in which popular writers and the reading public bent on proving something seem peculiarly to delight,—must not be lost sight of. “Figures,” says Webb in his recent revision of Mulhall’s *Dictionary of Statistics*, “according to the oft-quoted dictum, can prove anything. As a matter of fact, they prove nothing. It is the human mind that proves (or attempts to prove) things, and figures are but evidence to be examined, weighed, and judged, as is any other kind of evidence.” I believe I risk nothing in saying that there is no branch of statistical inquiry to which this statement is more applicable and with respect to which its implied warning should be more closely followed than in the new but rapidly developing science of municipal financial statistics.

There are numerous factors of importance besides population which cannot be ignored in any comprehensive attempt to interpret scientifically the meaning of the data of financial transactions. The most obvious of these are valuations and area, but there are others of hardly less consequence which immediately present themselves and compel consideration the moment we enter upon any of the grand divisions of municipal service. For example, considerations of topography and the character of building construction are quite as vital elements in undertaking to determine needful expenditures for the protection of property from fire as is the mere number of people living upon the area to be protected, and in some instances even more so; and a per capita comparison of the cost of maintaining the fire protection service of two cities of approximately the same size, one of which is situated upon bluffs or hilly territory requiring a greater expenditure for apparatus than its sister city spread out over a plain, might be quite meaningless, while certainly the cost of protection should be less in factory cities where the construction is

of some material more nearly fireproof than wood. Obviously, also, proper expenditures for the public schools, can be determined neither by the aggregate population nor by the area of the city, nor by the ability alone of the taxpayers to provide training in other than rudimentary branches,—but must rest primarily upon the number of children to be educated, and, secondly, upon density of population, that is, the distance which pupils must travel to school, since the larger the area upon which any considerable number of pupils live under one system, the greater the number of schoolhouses which may legitimately be maintained. Such illustrations might be extended through the whole list of municipal functions.

But I confess to a certain degree of apprehension at this time lest the importance in this work of establishing and maintaining the statistical viewpoint, with its prophetic possibilities, be minimized or submerged by the more immediate and pressing requirements of the situation on the side of auditing and accounting. The necessity of municipal accounting reform has been, and still is, so urgent, the conditions which are stimulating it are so apparent, and the organizations and individuals which are now fighting for it all over the country are so influential that the current drift in legislation on the subject in some of our states, of which Ohio and Indiana may be cited as the leading examples, appears to be in the direction of a strong centralized supervision over municipal accounting methods by means of a periodical state audit of all local financial transactions, with the making of returns to be compiled as the basis of comparative statistics a secondary consideration. Indeed, it is entirely natural, where the state has set out openly and without disguise to assume direct control and supervision over the financial management of its local political subdivisions and has placed this work in charge of a department created ostensibly for accounting and auditing purposes, that its latent possibilities for greater ultimate usefulness by means of comprehensive and carefully compiled statistical information should, even if appreciated, be but imperfectly developed.

The other point of view, *i. e.*, that which recognizes the

importance, as a direct means of measuring efficiency, of reducing the data of municipal finances to an intelligible basis by the statistical processes of revision, classification, and verification,—with actual supervision of financial methods as a secondary and incidental consideration,—is perhaps best typified in the legislation of Massachusetts and Wisconsin on this subject. In Massachusetts we are still very strongly influenced by traditions of local self-government which have grown up through generations of attachment to the town meeting, and anything which savors of ostensible state supervision over local affairs is likely to be viewed with considerable jealousy, perhaps more so than in the newer communities of the region beyond the Alleghenies where the traditions of the oldest states date back as yet scarcely a hundred years. In this ancient commonwealth every fresh proposition for the assumption by the state of any form of jurisdiction over local affairs has to fight its way and seldom becomes established in our statutes without being obliged to submit to the test of necessity,—of being justified only as a last resort.

Massachusetts, therefore, acted distinctly upon this theory of local responsibility when it undertook to work out a program of accounting reform for its cities and towns, and, instead of meeting the question in the manner which was theoretically most logical, namely, by providing for the general installation of a uniform system of municipal accounting throughout the commonwealth, with incidental returns for statistical purposes to a central bureau upon a schedule based upon the accounting system, the legislature at first (in 1906) simply provided for returns to be made by local accounting officers to the recognized statistical department of the Commonwealth upon forms to be supplied for the purpose. Subsequently (in 1910) cities and towns were authorized to petition the director of the Bureau of Statistics for an audit of their accounts and the installation of an accounting system, the cost to be assessed back in the next state tax, so that although the authority of the department has been increased it may still be exercised in this particular only as the result of local initiative.

The Massachusetts policy was based upon the theory that

any needed changes in accounting methods would, in the long run, prove more effective if our municipalities could first be brought to appreciate their importance and be induced to make them in a measure voluntarily, with the supervisory assistance of the state, than might be the case if such changes in methods were forced prematurely upon municipalities unwilling or unable to comprehend the need of reform. The legislature may at some time, perhaps, deem it desirable or necessary to alter this policy, but at present it is operating most satisfactorily and is producing results of a more substantial and lasting character than would, I believe, have been likely under mandatory legislation. The Wisconsin law is framed on practically the same underlying principle and is being administered, I believe, in the same spirit, and with the definite purpose in view of gathering and disseminating for the immediate benefit of the local communities and for the information of students of municipal government, carefully compiled and reliable statistical data.

Surely there must be some lessons which can be drawn from the enormous waste and inefficiency, amounting in so many instances almost to failure, which have marked the administration of public, and especially of municipal, affairs in our country. There must be some intelligent basis on which the contributions of society for the common welfare may be expended for the accomplishment of the largest results with a minimum of waste and a maximum of efficiency in the process. It ought to be possible to determine what causes may be logically and properly responsible for increasing expenditures, and wherein increasing revenues may be directed into new channels of legitimate endeavor. And, both in the interest of the truth of science and of entire fairness to administrative officers, it is of fundamental importance in the interpretation of statistics of municipal finances that the line of discrimination should be carefully drawn between the natural, economic, or physical reasons which may furnish a legitimate basis for expenditures and the wholly unnatural and uneconomic practices which make for wasteful expenditure.

While the people in our cities and towns ought not to be permitted to delude themselves with the idea that any con-

siderable measure of responsibility for efficiency in local administration can safely be transferred to any higher authority, it is at the same time plainly apparent by all the signs of the times that they do not propose to be governed much longer by the spirit of *laissez faire* in their municipal affairs. In this situation the true and ultimate function of the state, it seems to me, is to protect the taxpayers of the future by placing proper restrictions upon the incurrence of debt by the present generation and, in the interest of common honesty, by making due provision for its payment; to assist in the establishment of adequate accounting systems in the separate communities; and to take what otherwise are mere book-keeper's figures and by observation, classification, correlation, and analysis develop certain definite laws of public expenditure,—in a word, to galvanize these figures into living object lessons that shall make for a better and broader civic life.